

The financial situation of middle-income families in Canada and the USA: Background document to the FIM study

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Introduction

The FIM (Families in the Middle) study is a collaborative project which took place in Canada and the USA during the period 2007-2010. It aims at analyzing the daily lives of middle-income families in the two countries including parents' hopes, fears, and investment in their children.² The motivation for studying this specific subgroup of families stemmed mainly from debates and discussions on the middle-class squeeze that emerged in Canada and the USA in the late 1990s and early 2000s, but especially from the realization that we knew in fact relatively little about this segment of the population. While there were ample studies on low-income and welfare families in the early 1990s, in contrast there was a dwarf of studies on those located in the middle of the income distribution.³ Since then, and especially since the Great Recession of 2007-2009, much has been written on the middle class. Cross-nationally comparative data for this subgroup of families continue however to be limited.

This document provides background information on the financial situation of middle-income families compiled from various sources. In doing so, we used data from international organizations (e.g. OECD), from large cross-national surveys (e.g. World Value Survey), as well as from our own data collected as part of the FIM project. As explained below, the use of different sources means however that the actual definition of the middle-income is not necessary consistent across the different sets of results reported in this document. Moreover, in some cases the data refer to the middle-class rather than to the middle-income. We document these differences when reporting each data. When possible we also report data around the year 2009, that is, around the time when we collected data for the FIM study.

1. Trends in the size of the middle-class and in median income

Expressions such as the "middle-class squeeze" and the "disappearance of the middle class" are relatively recent. The study by Sullivan, Warren and Westbrook (2001) and entitled "The fragile middle class: Americans in debt" was among the first to draw attention to the fate of the middle-class and

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² More information on the FIM study may be found in Gauthier (2015).

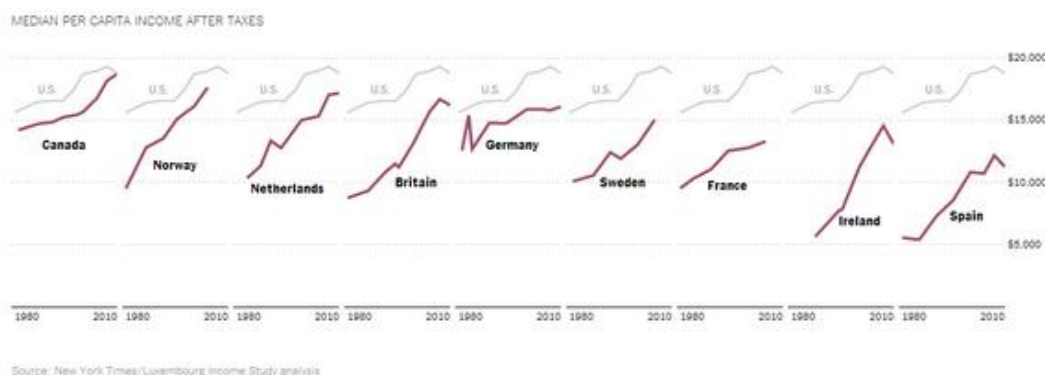
³ Interestingly the field of family sociology paid much interest to the middle class in the 1950s and 1960s. The subsequent war on poverty however shifted the attention away from the middle class towards those on low income and on welfare.

especially to its increasing financial vulnerability. This vulnerability, it was argued, resulted from the combination of three trends: (a) the relatively stagnant middle-class wages dating back from the 1970s, (b) the rising cost of costs and services, notably in the category of health care and education; and (c) the easy access to credit. For families, the consequence of these trends was an increase reliance on credit and borrowing in order to maintain their middle-class lifestyle. A recent study in fact estimates that less than one-third of middle-class families in the USA are secure in their middle-class position while one-fourth are at high risk for slipping out of the middle class (Wheary, Shapiro and Draut 2007). No comparative data are available for Canada.

Talks of middle-class squeeze were also abundant in Canada from the late 1990s, but were also highly contested with some aimed instead at ‘debunking the myth’ of the declining middle class in Canada (Turner 1996). Comparative data on the fate of the middle-class in the two countries USA subsequently appeared in two separate studies. The first one was published by Pressman in 2007 and attracted considerable media attention in showing an increase in the size of the middle class in Canada and a corresponding decrease in the USA. In fact, Canada was one of the few countries, according to the study by Pressman (2007), where the middle-class had actually increased in recent decades. The headline in one of the leading national newspapers read “The secrets of Canada's world-leading middle-class success”.⁴ The study did not however meet a consensus in the academic community, especially as it ran counter to data published by Statistics Canada and which instead showed a decline in the proportion of middle-income families (Statistics Canada 2007).

The second study was published by the New York Times last year and once again drew attention to the divergent trends in Canada and the USA. In particular, it revealed how the median income of Canadian households, which used to lag behind that of Americans, had now caught up with it. The story was widely reported in Canadian and American newspapers with headlines such as “The Middle Class In Canada Is Now Richer Than In America: NYT”.⁵ The graph reproduced below came from that study and indeed show the distinct trends in the median income of the two countries.

Figure 1: Trends in median per capita income after taxes



⁴ Source: <http://www.theglobeandmail.com/news/world/the-secrets-of-canadas-world-leading-middle-class-success/article1079582/>

⁵ Source: http://www.huffingtonpost.ca/2014/04/22/median-income-canada-america-us-middle-class-new-york-times_n_5192459.html

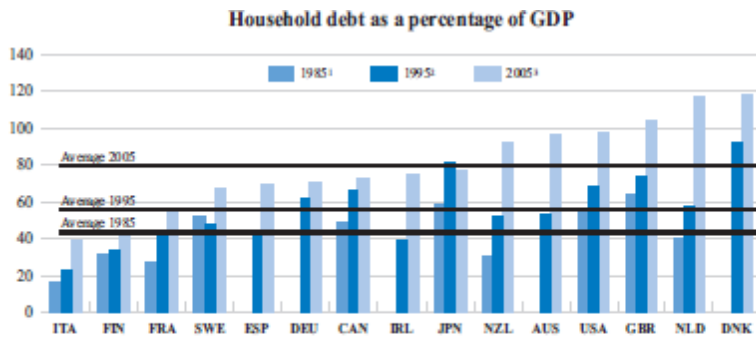
Source: Leonhardt and Quealy (2014)

What this means is that when we started collecting data for the FIM study, the median income of families in the two countries was nearly identical, around 60,000 US\$.⁶ The trends up to that point however differed and as will be seen below also suggest greater financial strain among American middle-income families than their Canadian counterparts. The story is however a complex one.

2. The indebtedness of the middle-class

The increasing indebtedness of the middle-class is also a topic that has received much attention in recent years. The graph below refers to household debt as a percentage of GDP and shows a clear increase between 1985 and 2005 in both Canada and the USA. The level of indebtedness for the latest year observed here is however much higher in the USA.

Figure 2: Household debt as a percentage of GDP



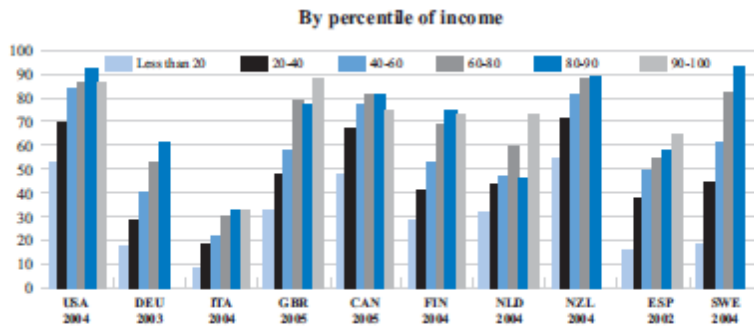
1. 1987 for the United Kingdom.
2. 1999 for Ireland.
3. 2004 for Japan, Denmark and Spain.

Source: OECD (2006).

Comparative data are much more difficult to find for the middle-income group. One such piece of data is reported below and refers to the debt holding patterns by income percentile. If we restrict the comparison to middle-income households in the 40-60 percentile, the graph below shows that the percentage of indebted households was higher in the USA than in Canada. This is consistent with the pattern observed for all households.

⁶ Note that this figure refers to the total median family income (before taxes) while the data in Figure 1 refers to the income per capita (after taxes).

Figure 3: Percentage of indebted households by percentile income



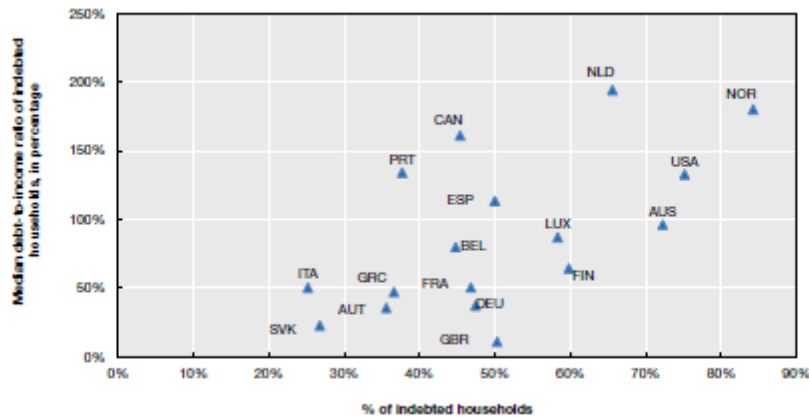
Note: For Germany, New Zealand and Sweden, the last group is 80-100.
 Source: See statistical annex.

Source: OECD (2006). Figure III.7

The story is however more complicated when the actual level of debt is taken into account. For while the percentage of indebted households is indeed higher in the USA than in Canada, and as shown in the graph below, the actual debt of indebted households is lower in the USA. These data refer however to all households. No comparable data for middle-income households is available from the same source.

Figure 4: Degree and depth of indebtedness for indebted households

Figure 4. Degree and depth of indebtedness for indebted households in selected OECD countries 2010 or latest available year



Source: OECD Wealth Distribution Database.

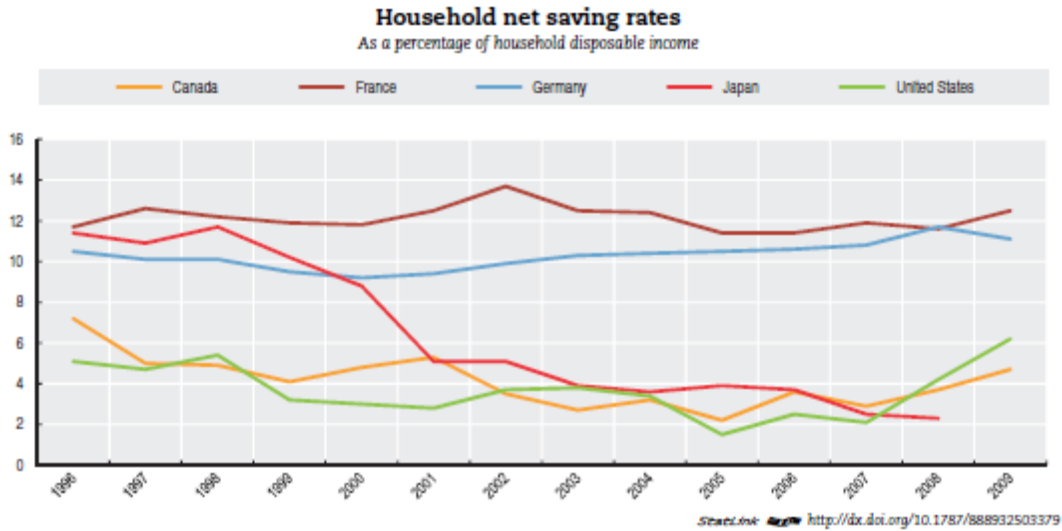
Source: Murtin and Mira d'Ercole (2015). Figure 4.

3. The rate of savings

If the indebtedness among the middle class has increased in recent years, the trends are less clear when it comes to the household net savings rate. The graph below pertains to all households and reveals that

the trends in household net savings rate do not differ widely between the two countries. The average for the period prior to the recession (1997-2006) was 3,9 percent for Canada and 3.4 percent for the US.

Figure 5: Trends in household net savings rates



Source: OECD (2011). Household savings, in: OECD Factbook 2011-2012. Economic, Environmental, and Social Statistics, OECD publishing.

The above source does not report comparable data for middle-income households. For this, one has instead to draw from the World Value Survey with a question on family savings during the past year. The actual wording of the survey question was: “V251. During the past year, did your family (read out and code one answer): 1 Save money; 2 Just get by; 3 Spent some savings; 4 Spent savings and borrowed money”. The data appears in Table 1 below. For this calculation, we restricted the analysis to those who reported being in the 4th to 6th income decile (itself drawn from the response to the question: “On this card is a scale of incomes in which 1 indicates the lowest income decile and 10 the highest income decline in your country. We would like to know in which group your household is. Please specify the appropriate number counting all wages, salaries, pensions and other incomes that come in”). As can be seen, the differences between the two countries are not large with the percentage of middle-income respondents saying that they saved money or that they just get by being very similar in the two countries.

Table 1. Family savings during the past year among middle-income respondents (percent distribution)

	Canada	USA
Save money	24.8	27.0
Just get by	44.4	50.1
Spent some savings	12.4	12.4
Spent savings and borrowed money	18.5	10.5
Total	100.0	100.0
N of cases	177	248

Source: One calculation from World Value Survey wave 5 (2005-2009). We restricted the sample to respondents age 30 to 49 years old with at least one resident household child and having a household income between the 4th and 6th income decile.

In our own FIM study we asked respondents about their families' patterns of savings and debts. We found that close to half of Canadian middle-income families and two-thirds of American middle-income families had unpaid credit card bills.⁷ We also found that the large majority of middle-income families had little or no savings. This was the case for 70 percent of them, with very similar figures in Canada and the USA.⁸

4. Satisfaction with household income and financial strain

While "hard" data on income, indebtedness and savings are essential to understand the financial situation of middle-income families in the two countries, we also draw from subjective data to provide a more complete picture. Data on three indicators are reported below.

The first one is the perceived satisfaction with household income. The question asked in the World Value Survey was "V68. How satisfied are you with the financial situation of your household? Please use this card again to help with your answer (code one number): where 1: Completely dissatisfied and 10 Completely satisfied". The results appear in Table 2 below and shows that Canadian respondents in middle-income families rated their satisfaction slightly higher than their American counterparts.

Table 2: Satisfaction with household income (among respondents in middle-income families)

	Canada	USA
Satisfaction with the financial situation of household (from the WVS) (scale from 1 to 10)	6,04	5,65

Note and source: See Table 1.

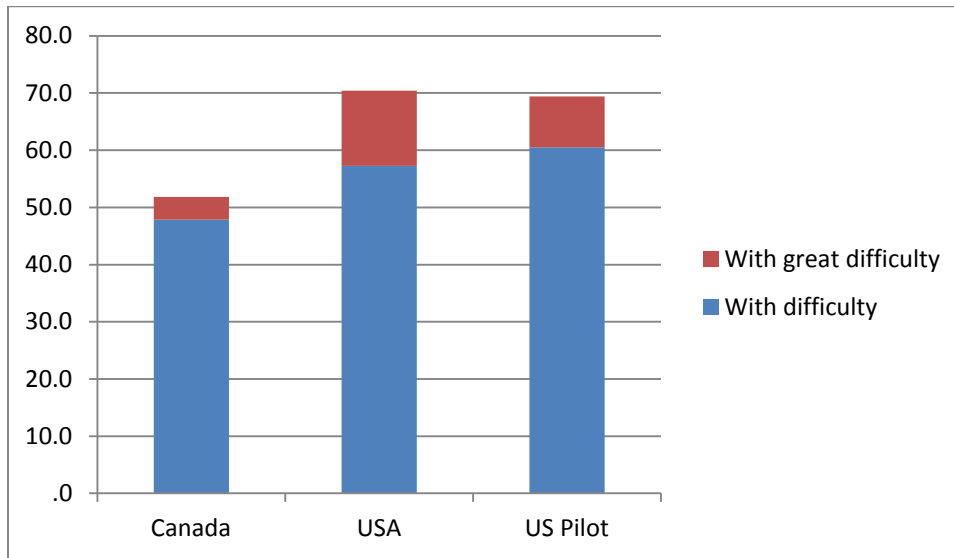
The second indicator is the perception of financial strain. The question asked in the FIM study was: "How well do you get by with your family's income?" with possible answers: With great difficulty, With

⁷ The question asked (in the long questionnaire) was: "Do you or someone else in your household currently have the following:" where one of the items was "Unpaid credit card bills".

⁸ The question asked (in the long questionnaire) was: "If somebody in your household were to lose his/her job (including yourself), how many months do you think your family could manage without borrowing money?".

difficulty, Easily, Very easily.. As seen in the graph below, a higher percentage of middle-income respondents answered that they were managing with difficulty or great difficulty in the USA than in Canada.

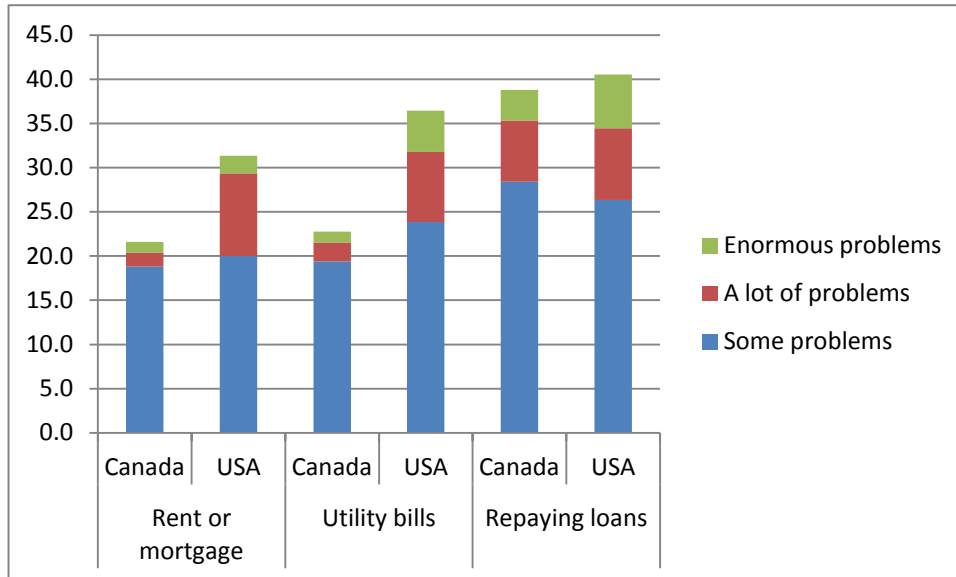
Figure 6. Subjective perception of the financial situation of their household by middle-income respondents (percent responding with difficulty or with great difficulty)¹



Note: 1- The result based on the US Pilot Survey are for families with children age 0 to 17, while the results based on the FIM survey are for families with at least one child age 9 to 14. The other possible answers were 'easily' and 'very easily'. In both cases, the data refer to middle-income respondents. Sources: FIM Study (short questionnaire) and own calculation from the micro-data of: US National Center for Family and Marriage Research (NCFMR) Pilot Data Series: Familial Responses to Financial Instability, How the Family Responds to Economic Pressure: A Comparative Study, 2009 [United States] (ICPSR 26541).

Finally, in the FIM study, we also asked respondents if they had difficulty paying for various items. The results appear in Figure 7 below. It again reveals the larger financial strain experienced by American middle-income families as compared to their Canadian counterparts.

Figure 7. Difficulty paying for specific items by middle-income respondents (percent responding having some, a lot, or enormous problems)¹



Note: 1- The question asked was: “In the last twelve months, have you, or any member or your family, had problems in: (a) Paying the rent or mortgage; (b) Paying the water, gas, electricity or heating bills; (c) Paying for food; (d) Paying for health care; (e) Repaying loans; (f) Making needed, new purchases such as home furnishings, automobile” with as answer categories: No problems, Some problems, A lot of problems, Enormous problems. Source: FIM data (short questionnaire).

5. Governmental support for middle-income families

If market forces play a large role in determining the financial situation of middle-income families, so do also the government. When it comes to governmental support, the two countries belong to the Liberal Welfare State and are usually classified in the family policy literature as providing limited support for families (Thevenon 2011). We report below comparative data on governmental support for middle-income families for two indicators.

The first one pertains to the amount of taxes and cash benefits and was obtained from the online OECD Tax benefit calculator. We used as an approximation of middle-income families the case of a married two-earner two-child family. One earner is assumed to earn 100 percent of the average wage, and the other 67 percent. The data appear below. It shows that while middle-income families pay slightly more taxes in Canada than in the USA, they receive more family benefits. The net result (disposable income vs. family earnings) is almost the same in both countries.

Table 3: The taxes and benefits of middle-income families in Canada and the USA

	Canada 2009 (CDN\$)	USA 2009 (US\$)
Family earnings	71002	73973
Housing benefits	0	0
Family benefits	2695	0
Social assistance	0	0
In-work benefits	0	800
Income tax	9024	8222
Social contribution	5143	5659
Net disposable income	59529	60892
Percent	84%	82%

Source: Own calculation from the OECD online calculator.

The above data is restricted to cash transfers and taxes. The only comparative study that we are aware of and that takes into account a broader set of governmental support is that from Bradshaw and Finch (2002). It includes taxes and cash benefits but also education, health and other services and benefits. The table below pertains to an average family which again approximates our middle-income group, that is, a couple plus two children, with two earnings, one average male and half average female earnings. When this broader package of cash benefits is taken into account, Canada appears overall with a slightly better ranking than the USA, although both countries rank towards the bottom from an international perspective.

Table 4: Value of the child benefit package for an average family (rank out of 22 countries).

	Canada (rank)	USA (rank)
After taxes and benefits	20	6
After taxes, benefit and housing cost	19	6
After taxes, benefits and services	15	18
After taxes, benefits, housing costs and services	15	18

Source: Bradshaw and Finch (2002). Table 9.6.b.

Conclusion

There is obviously not a single indicator that would allow us to summarize the financial situation of middle-income families in Canada and the USA. Moreover, and as seen above, data is lacking for some dimensions and was consequently complemented by our own FIM data (however not based on nationally representative samples). Despite these limitations, available data do point to a slightly better position of middle-income families in Canada than in the USA. A smaller percentage of middle-income families in Canada are indebted, they rate their financial situation as being better, and they benefit from a more comprehensive package of governmental support. Having said that, it is however important to

remember that, from an international perspective, both countries appear at the bottom of ranking when compared to other countries.

There are however two major limitations to the above conclusions. First, the data for the FIM study was collected in 2008-2010, that is during the Great recession. As such what we know by now is that the middle-class was more affected by the recession in the USA than in Canada (see McDaniel >>>>).. And while none of our FIM participants was severely affected by the recession, it is possible that some of the subjective data that we collected reflected the more severe economic climate surrounding families in the USA. Second, our analysis also omits some major welfare reforms that have since been implemented in recent years, including Obamacare.

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